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SENSITIVE

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LORRIE FUSSELL

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SUBJECT: BRAZILIAN CIVIL AVIATION LIBERALIZATION: PERSPECTIVES FROM
BRAZIL'S MINISTRY OF DEFENSE

REF: A. BRASILIA 0016; B. BRASILIA 0076; C. BRASILIA 0395; D.
BRASILIA 0896; E. SAO PAULO 0192

SENSITIVE BUT UNCLASSIFIED

11. (SBU) Summary: Brazil's abilities to accommodate strong passenger air traffic growth, prepare for the World Cup in 2014 and the Olympics in 2016, and enact market liberalization measures hinge upon its successful resolution of pressing capacity constraints, particularly at Sao Paulo's Guarulhos International Airport. In recent meetings, Fernando Soares, the Director of Civil Aviation Policy within the Civil Aviation Bureau (SAC) at Brazil's Ministry of Defense (MOD), and Carlos Duarte, Soare's Manager of Civil Aviation Policy, discussed sectoral market reform measures and airport infrastructure in the context of coping with these challenges. Soares, a self-professed free market economist who has worked closely with ANAC president Solange Vieira on several market liberalization initiatives, commented that the capacity constraints are a major impediment to a successful conclusion of an Open Skies agreement with the United States, and suggested adopting a phased-in approach that begins with air cargo and concludes with passenger traffic as the operational constraints are resolved. Mission believes it is important not to lose the momentum generated from the successful implementation of the June 2008 Brazil/United States civil aviation agreement. Engaging Brazil in further discussions on air cargo liberalization could be a productive next step, with a view toward a full Open Skies agreement as Sao Paulo's operational constraints are resolved and as Brazil builds broader stakeholder consensus in support of Open Skies. End Summary.

AIRPORT INFRASTRUCTURE CHALLENGES

12. (SBU) In order to cope with soaring air traffic demand, which saw a 30% increase in October 2009 compared to October 2008, Soares highlighted the urgency of resolving operational capacity constraints in Brazil's major airports, especially Sao Paulo's Guarulhos Airport, Brazil's busiest international airport. SAC's main priority leading up to the World Cup and the Olympics is airport infrastructure, Soares stated. He noted that current demand already makes addressing infrastructure challenges a priority, and World Cup and Olympic demand only increases the urgency. In tackling the capacity constraints caused by expansion limitations at Guarulhos, Soares stressed the importance of completing the high speed train project linking Sao Paulo's less congested suburban Viracopos International Airport to downtown Sao Paulo and Rio in order to offer a viable alternative to servicing Sao Paulo. Soares added that he doubted the construction of a new airport in downtown Sao Paulo would be ready for the World Cup in 2014. Soares cited the importance of private-public partnerships as critical mechanisms to achieving the necessary infrastructure improvements. To this end, Soares referenced recent SAC/ANAC initiatives allowing for

greater private sector participation in airport infrastructure management and expansion through a concession model (REFTEL D), adding that both Viracopos and the proposed new airport in Sao Paulo are targeted for private management under the model with the aim of enhancing their operational efficiencies. Soares was hesitant to predict when these initiatives would be approved by MOD's Minister Jobim or by President Lula, citing Jobim's lukewarm reception to transferring a state responsibility to the private sector, and election year politics in 2010 as potential obstacles to their approval. Soares also showed interest in a Brazil/ United States Aviation Cooperation Program (ACP), commenting that its proposed public-private partnership framework would prove useful in addressing some of Brazil's infrastructure challenges, suggesting a continuation of the dialogue with both SAC and ANAC.

MARKET MEASURES

13. (U) As a free market economist committed to increasing competition within the aviation sector, Soares said that the implementation of many of Brazil's recent market liberalization measures, such as changes in levels of foreign ownership of Brazilian airlines and the facilitation of quicker market entry for foreign carriers (REFTEL D), hinge upon the resolution of infrastructure challenges in Sao Paulo. Soares added that the two proposed initiatives have widespread support in the Brazilian National Civil Aviation Council (CONAC), which Soares chairs (REFTEL A), and in the Brazilian Congress, where passage is expected soon, but execution and success will depend upon the availability of more Sao Paulo routes. Soares and Duarte concurred with the conclusions of the USG-provided Open Skies economic impact study for Brazil that pointed to increased sectoral employment, greater competition and enhanced operational efficiencies as a result of an Open Skies

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agreement. In fact, Duarte attributed a 30% decrease in domestic fares in September 2009 compared to September 2008 to the increased competition caused by Brazilian low cost carriers Webjet and Azul and said an Open Skies agreement would further enhance SAC's civil aviation market development goals. Soares stated that Brazil would sign an Open Skies agreement with the United States "tomorrow" if it were not for the capacity problems in Sao Paulo, conceding that the main interest for U.S. carriers was additional slots in Guarulhos (Note: ANAC President Solange Vieira stated publicly on November 12 that she will propose a formal moratorium on all new international frequencies at Guarulhos beginning in 2010 due to the capacity constraints there. End Note). Soares suggested taking a poll of the U.S. carriers to see if there was interest in increasing frequencies to Rio's Galeao airport and those in the north and northeast of Brazil. Soares offered that both sides could sustain the successful momentum toward Open Skies by adopting a phase-in approach to Open Skies starting with air cargo first, which would not face the same operational constraints as passenger traffic because its primary hub is Viracopos.

14. (SBU) Comment: There does not appear to be a realistic scenario that points to a conclusion of a full Open Skies agreement with Brazil in 2010, despite theoretical buy-ins from key Brazilian government stakeholders (REFTEL B). In addition to GOB's need to manage domestic carrier opposition to Open Skies (REFTEL C and E), the airport infrastructure constraints in Brazil's business center of Sao Paulo represent a serious hurdle as it prepares for the World Cup and the Olympics. These challenges present an opportunity to engage Brazil through an Aviation Cooperation Program (ACP) that incorporates a public-private approach in addressing aviation related challenges. At the same time, it is important not to lose the momentum generated from the successful implementation of the June 2008 Brazil/United States civil aviation agreement. Engaging Brazil in further discussions on air cargo liberalization could be a productive next step, with a view toward a full Open Skies agreement as Sao Paulo's operational constraints are resolved and as Brazil builds broader stakeholder consensus in support of Open Skies (REFTEL C and E). Sao Paulo will report septel on evolving industry views on Open Skies. End Comment.

This message was cleared by consulates Sao Paulo and Rio.

